

Function 550: Health

In Function 550 (Health), appropriated programs include most direct health care services programs. Other health programs in the function fund anti-bioterrorism activities and national biomedical research, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. The major mandatory programs in this function are Medicaid, the State Children's Health Insurance Program (SCHIP), and Tricare-for-Life (health care for Medicare-eligible military retirees).

Overview

Overall Appropriated Levels Cut — The President's budget provides \$50.8 billion for appropriated programs, excluding emergency appropriations for pandemic influenza, in Function 550 (Health) for 2007. This amount is a cut of \$126 million (0.2 percent) below the 2006 enacted level, and a cut of \$1.4 billion (2.6 percent) below the amount needed to maintain purchasing power at the 2006 enacted level. In addition to these amounts, appropriated health programs received \$3.3 billion in supplemental appropriations for pandemic influenza for 2006, and the budget provides an "allowance" of \$2.3 billion for 2007. The Administration intends to transmit a formal request for these emergency funds to Congress later this year.

Overall Mandatory Increase — The budget increases mandatory spending relative to current law by \$20.0 billion over five years. This change is primarily due to a change in how postal service retiree health benefits are displayed in the budget, and to pay for postal service reforms and the refundable portions of a package of tax policies for health savings accounts and high-deductible, which is partially offset by cuts to the Medicaid program. See *Health Savings Accounts and Other Health Coverage Proposals* for more information on the health tax policy proposals.

Medicaid and the State Children's Health Insurance Program (SCHIP)

\$17.2 Billion in Gross Cuts to Medicaid Over Five Years, \$42.3 Billion Over Ten Years — The budget includes legislative cuts to Medicaid of \$4.9 billion over five years, and another \$12.2 billion in cuts through regulatory changes, for total gross cuts of \$17.2 billion over five years. Over ten years, the budget includes \$11.9 billion in legislative cuts, and \$30.4 billion in regulatory cuts, for total gross cuts of \$42.3 billion. (The budget also reinvests \$3.2 billion in Medicaid over five years and \$6.8 billion over ten years, for a net effect in Medicaid legislative and regulatory cuts of \$14.0 billion over five years and \$35.5 billion over ten years.) Cuts of this magnitude cannot be found by simply closing loopholes – the pain will be felt somewhere, either by shifting costs to beneficiaries or states or cutting payments to providers, which can undermine their ability to provide care to the uninsured.

Cuts to Medicaid (dollars in billions)		
	2007 - 2011	2007 - 2016
Legislative Cuts:		
Reduce Payment for Targeted Care Case Management	-1.2	-3.1
Reduce Payments for Generic Drugs	-1.3	-3.4
Optional Managed Formulary	-0.2	-0.5
Avoid Payments for Prenatal and Preventive Pediatric Care	-0.5	-1.2
Cut Payments for Administrative Costs (Cost Allocation)	-1.8	-3.7
Total Legislative Cuts	-4.9	-11.9
Regulatory Cuts:		
Limit Provider Payments to Cost (Eliminate UPL)	-3.8	-9.0
Reduce Allowable Provider Taxes	-2.1	-5.5
Limit Reimbursement for Rehabilitation Services	-2.3	-6.1
Limit Reimbursement for School-Based Services	-3.6	-9.1
Delay Payments to Pharmacies	-0.4	-0.7
Total Regulatory Cuts	-12.2	-30.4
Total Legislative and Regulatory Cuts	-17.2	-42.3
Program Reinvestments		
Extend Transitional Medicaid Assistance	0.4	0.4
Vaccines-for-Children	0.7	1.4
Cover-the-Kids Initiative*	2.0	4.9
Medicaid Effects of SSI Refugee Extension	0.1	0.1
Total Program Reinvestments	3.2	6.8
Net Medicaid Cut	-14.0	-35.5

*Only reflects Medicaid costs from increased Medicaid enrollment under “Cover the Kids” outreach initiative. The SCHIP costs and the \$1.0 billion in outreach grants (2007 to 2016) under “Cover the Kids” are reflected in other accounts.

Legislative Cuts of Nearly \$5 Billion Over Five Years, and Nearly \$12 Billion Over Ten Years

— The budget includes gross legislative cuts to Medicaid of \$4.9 billion over five years, and \$11.9 billion over ten years.

- ***Reduces Payments for Targeted Care Case Management*** — The budget cuts the Medicaid match rate for targeted care case management for disabled children, adults, and others to 50 percent, cutting Medicaid spending by \$1.2 billion over five years and \$3.1 billion over ten years. This change may negatively affect states’ ability to serve these populations.
- ***Avoids Payments for Prenatal and Preventive Pediatric Care*** — Under the auspices of “strengthening third party liability,” the budget lets states avoid payments for prenatal and preventive pediatric care in instances where a non-custodial parent may be liable for payment. The budget also lets states use liens against liability settlements to recover federal matching payments. These policies save \$525 million over five years and \$1.2 billion over ten years.
- ***Reduces Reimbursement for Generic Drugs*** — The budget limits payments for generic drugs to 150 percent of the average manufacturers’ price, for savings of \$1.3 billion over five years and \$3.4 billion over ten years.
- ***Allows States to Use Managed Formularies*** — The budget lets states develop more restrictive prescription drug formularies for Medicaid beneficiaries, yielding savings of \$177 million over five years and \$469 million over ten years.
- ***Cuts Medicaid Payments for Administrative Costs (Cost Allocation)*** — The budget reduces federal reimbursement for Medicaid administrative costs to reflect the administrative costs shared by Medicaid and the Temporary Assistance for Needy Families program, a policy known as “cost allocation.” This policy cuts administrative spending by \$1.8 billion over five years and \$3.7 billion over ten years.

Regulatory Medicaid Cuts of \$12.2 Billion Over Five Years, \$30.4 Billion Over Ten Years —

The budget includes the following regulatory changes that will cut Medicaid spending by \$12.2 billion over five years and \$30.4 billion over ten years.

- ***Limits Provider Payments to Cost*** — The budget cuts payments to providers by prohibiting states from paying government-owned providers more than “cost,” for five-year savings of \$3.8 billion and ten-year savings of \$9.0 billion. In effect, this policy eliminates the “upper payment limit (UPL),” which currently lets states pay government providers an amount above their costs. While some states may be using the UPL to draw down Medicaid matching dollars above what their Medicaid match rate would normally allow, many of them are phasing out this mechanism, and others reinvest the funds into the Medicaid program or other health programs. The Administration included this policy as a legislative change in last year’s budget.

- ***Reduces Allowable Provider Taxes*** — The budget reduces the allowable provider tax rate from 6 to 3 percent. Under current law, states can levy taxes of up to 6 percent against certain classes of providers and receive a federal Medicaid match for the amounts collected. The budget limits the amount of the tax to 3 percent, for savings of \$2.1 billion over five years and \$5.5 billion over ten years.
- ***Limits Reimbursement for Rehabilitation Services*** — The budget limits the types of rehabilitation services that are permitted for Medicaid reimbursement, for savings of \$2.3 billion over five years and \$6.1 billion over ten years. This policy may negatively affect chronically ill and disabled beneficiaries by limiting their access to rehabilitative services.
- ***Limits Reimbursement for School-Based Services*** — The budget limits the types of school-based administration and transportation services that are permitted for Medicaid reimbursement, for savings of \$3.6 billion over five years and \$9.1 billion over ten years
- ***Delays Payments to Pharmacies*** — The budget requires states' to pursue reimbursement from liable third parties before reimbursing pharmacies for Medicaid claims, for savings of \$430 million over five years and \$685 million over ten years. This policy will delay payments to pharmacies.

Medicaid Reinvestments of \$3.2 Billion — The budget includes \$3.2 billion in new Medicaid spending over five years.

- ***Transitional Medicaid Assistance*** — The budget includes a one-year extension of Transitional Medicaid Assistance – through September 30, 2007 – at a cost of \$360 million over five years.
- ***“Cover the Kids” Outreach*** — The budget provides \$1.0 billion over ten years in outreach grants to states – and estimates that those outreach efforts will result in increased enrollment – and new spending of \$2.0 billion in Medicaid and \$330 million in SCHIP over five years.
- ***Modifies Vaccines for Children Program*** — Vaccines for Children (VFC) is administered by the Centers for Disease Control and Prevention and funded by Medicaid. The budget provides \$700 million over five years and \$1.4 billion over ten years in Medicaid to allow under-insured children to receive VFC-administered inoculations at state and local health departments.
- ***SSI Refugees Extension*** — The budget extends Supplemental Security Income (SSI) eligibility for refugees and asylees from seven to eight years, which causes an increase in Medicaid spending of \$134 million over five years.

New Waiver Initiative for Medicaid and SCHIP — The budget announces the Administration's intent to develop a new waiver initiative that emphasizes “consumer-driven approaches to health care.” There are no details available on this initiative, but “consumer-driven” usually entails shifting more costs onto beneficiaries in the form of high-deductible health plans and moving away from guaranteed comprehensive benefits. Furthermore, in its discussion of this initiative, the budget touts a Florida Medicaid waiver that will permit private insurers to decide what benefits to offer beneficiaries. Waivers that move in these directions undermine current federal protections for millions of low-income Medicaid beneficiaries.

Redistribution of Funds Under SCHIP — The budget shortens the time that states have to spend SCHIP funds from three to two years. This proposal spends \$635 million in 2007, but only \$110 million over five years, indicating that there are funding cuts in later years that recoup some of the additional moneys spent in 2007.

Grants to States for Chronically Ill — The budget includes \$2.1 billion over five years for a new program of competitive state grants to promote insurance among the chronically ill.

Postal Service Reforms — The budget takes the pension savings that are provided to the Postal Service and would otherwise be held in escrow in 2007 and beyond, and uses them to fully fund its retiree health benefit liabilities. This policy does not change retiree health benefits, but rather changes where these costs are displayed so that \$33.2 billion in costs over five years is now reflected in retiree health benefits. This amount is offset elsewhere throughout the budget.

Federal Employee Health Benefits Program Statute — The budget amends the Federal Employee Health Benefits program statute to identify options for increasing price competition among health plans offered to Federal employees and retirees through the Federal Employees Health Benefits program. This proposal saves \$3.4 billion over ten years.

Appropriated Health Programs

Influenza Pandemic — The Congress appropriated \$3.8 billion in supplemental appropriations for 2006 to prepare for the possibility of a influenza pandemic. Of these amounts, \$3.3 billion was appropriated for health programs, with the remainder appropriated for the Department of Veterans Affairs and the Department of State. For 2007, the budget includes an “allowance” of \$2.3 billion in emergency funding for additional pandemic influenza preparedness activities, and provides \$352 million to fund ongoing activities within the Centers for Disease Control (CDC), Food and Drug Administration (FDA), the National Institutes of Health (NIH), and the HHS Office of the Secretary.

Health Information Technology — The budget includes \$169 million for health information technology, consisting of an \$88 million appropriation for the Office of the National Coordinator

for Health Information Technology and a transfer to that office from other programs of \$28 million, \$50 million for the Agency for Healthcare Research and Quality, and \$4 million for the Office of the Assistant Secretary for Planning and Evaluation.

Increase for Health Homeland Security Activities — Health-related homeland security activities are spread across the Departments of Health and Human Services, Homeland Security, Labor, and Agriculture. These activities include: protection of the nation's food supply; preparation against potential bioterrorism attacks, including development and procurement of vaccines; research to develop countermeasures; and preparations for public health emergencies. The budget provides \$4.6 billion for health homeland security activities, a \$279 million (6.4 percent) increase over the 2006 enacted level. The biggest items are biodefense research at NIH and grants funded by CDC for state and local preparedness activities.

Freezes Funding for NIH — Republicans often tout the fact that they doubled the NIH budget from 1998 to 2003. But now the budget provides \$28.4 billion for 2007, virtually a freeze at the 2006 enacted level, and a cut of \$642 million below the amount needed to maintain purchasing power at the 2006 level.

Cuts CDC — The budget provides \$5.8 billion for CDC, a cut of \$290 million (4.8 percent) below the 2006 level. The budget eliminates the Preventive Health and Social Services Block Grant (\$99 million) and cuts funding for buildings and facilities from \$158 million to \$30 million. The budget increases funding for the strategic national stockpile by \$68 million, for total funding of \$593 million, and freezes funding for state and local emergency response preparedness at \$824 million.

Increases Food and Drug Administration — The budget provides FDA with a program level of \$1.9 billion, consisting of an appropriation of \$1.5 billion and \$402 million in existing user fees. This program level is a \$71 million increase (3.8 percent) above the 2006 program level. The budget includes \$26 million in new user fees, and will reduce the direct appropriation by a comparable amount if the user fees are enacted. The new user fees include a fee requiring manufacturers and laboratories to pay the full costs of reinspections if they failed a previous FDA inspection, and an expansion of the current drug, animal drug, and medical device export certification user fee to also include food and animal feed.

Slight Increase for Mine Safety and Health Administration (MSHA) — For 2007, the budget provides \$288 million for MSHA, an \$11 million (4.0 percent) increase above the 2006 enacted level, but a freeze at the amount needed to maintain purchasing power at the 2006 level.

Boosts Food Safety and Inspection Service (FSIS) — The budget provides FSIS with a program level of \$987 million, consisting of an appropriation of \$758 million, existing user fees of \$124 million, and new user fees of \$105 million. The appropriation is a \$71 million (8.6 percent)

cut from the 2006 enacted level, but the program level is a \$35 million (3.7 percent) increase. The new user fees will be charged to industry for federal inspection overtime costs.

Cuts Substance Abuse and Mental Health Services Administration (SAMHSA) — The budget funds SAMHSA at \$3.1 billion for 2007, a decrease of \$71 million (2.2 percent) from the 2006 enacted level.

Cuts Health Resources and Services Administration (HRSA) — The budget funds HRSA at \$6.3 billion in 2007, a cut of \$255 million (3.9 percent) below the 2006 enacted level.

Eliminates Several HRSA Programs — The budget eliminates several HRSA programs, including health professions training grants (\$99 million in 2006), EMS for children (\$20 million in 2006), Universal Newborn Screening (\$10 million in 2006), and the Traumatic Brain Injury program (\$9 million in 2006).

Increase for Community Health Centers — The budget increases funding for community health centers by \$181 million (10.2 percent) above the 2006 enacted level, for total 2007 funding of \$2.0 billion. The Administration estimates that this increase will allow it to complete the President's goal of creating 1,200 new or expanded health centers and begin a new initiative to establish new health centers in poor counties.

Increase for Ryan White AIDS Programs — For 2007, the budget funds Ryan White AIDS programs at \$2.2 billion, an increase of \$95 million (4.6 percent) above the 2006 enacted level.

Slashes Rural Health Activities — The budget provides \$27 million for rural health activities, a \$133 million (83.1 percent) cut from the 2006 enacted level.

Cuts Children's Hospital Graduate Medical Education — The budget funds children's GME at \$99 million, a cut of \$198 million (66.7 percent) below the 2006 enacted level.

Indian Health Service — The budget funds the Indian Health Service at \$3.2 billion, an increase of \$124 million (4.1 percent) above the 2006 enacted level. Within this amount, the budget increases clinical services by \$147 million (5.2 percent), for a total of \$3.0 billion, but the budget eliminates urban health (\$33 million in 2006) and provides \$18 million for Indian health facilities construction, a cut of \$20 million (52.6 percent) from the 2006 enacted level.

Slight Increase for Occupational Safety and Health Administration (OSHA) — The budget funds OSHA at \$484 million, a slight increase of \$11 million (2.4 percent) over the 2006 enacted level, but a \$5 million (1.0 percent) cut from the amount OMB estimates is needed to maintain purchasing power at the 2006 level. The budget eliminates OSHA's training grants, which are funded at \$10 million in 2006.